

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC3941

Project Name	Local Governance and Services Improvement Program (P148896)
Region	MIDDLE EAST AND NORTH AFRICA
Country	West Bank and Gaza
Sector(s)	Other social services (30%), Rural and Inter-Urban Roads and Highways (25%), General water, sanitation and flood protection sector (20%), Sub-national government administration (15%), Central government administration (10%)
Theme(s)	Participation and civic engagement (45%), Municipal governance and institution building (20%), Social Inclusion (20%), Decentralization (15%)
Lending Instrument	Investment Project Financing
Project ID	P148896
Borrower(s)	Ministry of Finance
Implementing Agency	Ministry of Local Government
Environmental Category	B-Partial Assessment
Date PID Prepared/ Updated	20-Jun-2014
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Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

Local governments in the West Bank and Gaza have a long history. Some were created as early as the second half of the 19th century. Overall, Local Government Units (LGUs) predate the Palestinian Authority (PA) which was created as the first Palestinian central government administration after signing the Oslo Accords in September 1993. Until then, LGUs were the only administrative institutions officially functioning in the West Bank and Gaza. Over decades, LGUs have performed under the complexities of different political and legal regimes. The PA was initially established for a five-year interim period after the Oslo Accords with responsibility for the administration of the territory under its control. In 1994, the PA established the Ministry of Local Government (MoLG), and increasing the territorial administration under the PA's autonomous

control was among MoLG's main objectives during this initial period. LGUs were strengthened as means to reinforce a national Palestinian identity at the local level, and to overcome critical institutional and service delivery gaps.

This first push for decentralization included the approval to create new LGUs. The majority of those newly created LGUs were Village Councils (VCs) and Project Committees (PCs). By mid 1990s, the number of LGUs increased from 139 (109 VCs and 30 municipalities) prior to the establishment of the PA to well over 350 by 1997. Today, there are 378 LGUs in the West Bank and Gaza, out of which 135 are municipalities and 243 are VCs, with population size as the main determining factor distinguishing between the two layers of administration. However, the Oslo accords were never fully implemented and came to full halt with the beginning of the second Intifada in 2000. The consequence today is a multilayered system of physical, institutional and administrative restrictions which has led to a fragmentation into small enclaves. The fragmentation goes beyond a West Bank and Gaza divide, with the West Bank further divided into Areas A, B and C, each with its concomitant administrative and security arrangements. With increasing political and geographical fragmentation over the last two decades, LGUs have gained paramount importance providing services to the local population, particularly in areas where the relatively young central government was politically, geographically, and fiscally constrained.

At the same time, the fragile Palestinian economy is suffering a slow-down. GDP growth in 2013 hit its lowest point in six years. After growing at an annual rate of 11 percent during 2010-2011, growth in both Gaza and the West Bank has declined to 5.9 percent by the end of 2012. The economic situation further deteriorated in 2013 and latest estimates indicate that GDP growth sharply dropped to 1.5 percent by the end of the year. Slower economic growth has brought a heavy burden for the PA's budget. PA expenditures grew as a percentage of GDP in 2013 following a decline in the previous years. Despite ongoing reform efforts, the PA's fiscal situation is tight. Donor aid for recurrent spending has declined from USD1.76 billion in 2008 to USD1.26 billion in 2013, paired with low revenue collection as a result of the economic slump. The PA continues accumulating arrears which have become a major source of deficit financing in 2013.

Sectoral and Institutional Context

Quality and access to services remains an issue. Despite the efforts to have LGUs stepping in to fill critical service delivery gaps, lack of adequate funding is causing significant decline in the quality of basic local services. Particularly small LGUs lack the means to consistently provide local services to citizens. Capital investment needs remain large. While, overall, municipalities provide universal access to basic services, coverage of core local infrastructure services such as sanitation, solid waste collection, and water supply remains incomplete in many of the small and geographically isolated LGUs, i.e., VCs in their large majority. In addition, institutional capacity is very limited. Many VCs operate without permanent staff and don't have the capacity to ensure minimum service standards. Often, administrative structures only exist on paper.

Financial viability has been largely unaddressed. The PA's emphasis on expanding administrative coverage through creating additional LGUs has not been accompanied by a matching institutional framework with the required financial and technical capacity at the local level. LGUs operate without appropriate resources and face a continuous financing gap. Transfers from the central level are unpredictable and LGUs rely largely on fees and charges falling short of required cost-recovery levels. Although the growing number of VCs has received assistance from the PA, support to villages has focused mainly on small-scale capital expenditure funding, and improving community

development and investment planning. However, less urgency was given on assuring minimum service levels and long-term financial sustainability. Often, operation and maintenance cost of new infrastructure has been neglected and cause declining service levels. While capital investment needs are widely acknowledged and require continued attention, the question of how to finance and maintain basic service levels—particularly in small LGUs—is growing ever more important in light of the PA’s prevailing fiscal pressures.

Only a small proportion of existing villages can sustain local services. Improving service levels and financial sustainability will require tackling the underlying issues of minimum scale and capacity. Most of the villages (around 170) have a population size below 3,000 inhabitants; and even the few relatively larger villages suffer from inefficient service provision, heavy burden of staff salaries, and insufficient technical capacity. For the large majority of villages, joint service provision and supervision would be essential to ensure minimum standards in a sustainable manner. The MoLG acknowledged the need to better leverage economies of scale in local service provision and launched a policy of ‘amalgamation’. This policy seeks to merge VCs or join them with adjacent municipalities. However, this attempt to reduce the overall number of LGUs has, within the Palestinian context, demonstrated only mixed results. Mostly only those VCs that have received the capacity building support required building strong social capital in a bottom-up approach have achieved a larger level of collaboration. Overall, stakeholders report a general reluctance of VCs to give-up representative functions and little enthusiasm to share available investment funds among a larger constituency. Only few villages have actually merged to form ‘newly amalgamated municipalities’, or joined other existing municipalities in their vicinity. Out of the eight municipalities established during the last 4 years through the amalgamation processes, MoLG reports at least two as not very stable after the local elections in late 2013, and at least one at risk to disintegrate.

Joint service provision offers an option to leverage economies of scale. Since 2006, the by-law on Joint Service Council (JSC) has allowed LGUs to delegate service delivery, planning and development functions to JSCs. In total, around 70 JSCs exist, of which around half provide single services within their member LGUs; while the other half was established to administer basic functions such as development planning and project management on behalf of VCs (multiple-service JSCs). The degree of functionality varies greatly among existing VCs and MoLG estimates that approximately only 45 are viable to date. While some provide regular municipal services (e.g., solid waste management and water supply), develop and implement capital investment projects, operate and manage infrastructure assets, and collect user fees; others seem to be more ad-hoc and provide small-scale project planning and management support to VCs on a ‘demand-basis’.

However, the current institutional framework and governance structure for joint service provision blur roles and responsibilities of LGUs, JSCs, and public utilities. Financing, management and supervision arrangements are unclear, and weaken both vertical accountability between higher and lower levels of government; and horizontal accountability between citizens, local authorities, and service providers. JSCs have no direct or only weak accountability links to the service users and tend to be accountable only to their member LGUs. Unfunded functional assignments, cross-subsidies, and accumulating arrears exaggerate the fiscal stress of central and local authorities. Generally, minimum service level and performance standards remain undefined, with little or no monitoring by local authorities and/ or feedback from citizens. As a result, JSCs are barely held accountable and it is difficult to assess service provision costs.

Financing gap for sustainable investments in small LGUs. The Bank and other DPs support local governments in the West Bank and Gaza to improve basic local infrastructure and services. For example, the Municipal Development Program (MDP), managed by the Municipal Development and Lending Fund (MDLF), provides investment funds to municipalities allocated through a transparent performance-based formula. The recently closed Village and Neighborhood Development Program (VNDP) has financed small-scale social infrastructure and community services targeting marginalized and geographically isolated villages and neighborhoods. Despite the support, local authorities continue facing significant investment needs. However, while the 135 municipalities have access to funds provided by the MDLF, no systematic funding mechanism exists to finance investments in small LGUs. VCs cannot access funds under the ongoing MDP. This leaves a funding gap for the 243 villages and marginalized communities.

Relationship to CAS

The proposed program is fully aligned with (i) the strategic pillars defined in the Interim Strategy Note (ISN) for the West Bank and Gaza 2012-2014 (Report No: 66781-GZ); and (ii) the PA's National Development Plan (NDP) 2011-2013. In particular, the proposed program would directly contribute to achieving the ISN pillar 1 to "Strengthen the institutions of a future state to efficiently manage public finances and ensure services to citizens." It targets the ISN outcome areas "1.2 Reinforced public administration" (LGU's management capacity); and "1.3 Public services more responsive to users' needs" (Social accountability in service provision and investments). The proposed program would also contribute to the development objectives under the new NDP currently under preparation by the government. The draft NDP 2014-2016 has three broad objectives: the first one is focused on growth, competitiveness, and job creation; the second one on improving governance and public institutions; and the third one on infrastructure development.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The proposed Development Objective of this first phase would be to strengthen the local government financing mechanism and improve local service delivery in the target areas. Recipients are defined as VCs and JSCs qualifying to participate in the Program. The target area will be defined during program implementation, subject to qualifying recipients' location.

Given the demand-driven nature of the program, the specific type of sub-projects and service delivery improvements cannot be known ex-ante. However, local services to be improved are expected to include basic infrastructure and services such as solid waste collection, water supply and sanitation, local roads, but would also include community and social services. Beneficiaries would be the communities of qualifying VCs and JSCs.

The proposed Local Governance and Service Delivery Improvement Program would be fully embedded in the Bank's programmatic sector approach to enhance local governments' efficiency and effectiveness to achieve fiscal stability, but specifically target VCs which are the LGUs that currently do not have access to funds provided under MDP. The proposed program would complement MDP by targeting the "bottom end of the LGU spectrum" in a comprehensive approach to improving local service delivery performance. The program would support LGUs to improve and consolidate service provision to reach performance levels comparable to municipalities. In the medium-to-long run, targeted VCs would be expected to "graduate" and qualify to gain access to funding provided under the MDP performance allocation formula.

The higher-level program objective would be to strengthen the governance and financing structure of all LGUs to provide better coverage and improved quality of local services in a fiscally stable manner. The proposed program would support VCs and JSCs to improve service delivery performance in an incremental and gradual manner divided over programmatic phases, including Phase I proposed in this Concept Note. However, achieving this higher-level objective would exceed the scope and capacity of this first phase.

Key Results (From PCN)

Key performance indicators would include:

- Increased number/ percentage of VCs receiving funds based on transparent allocation formula;
- Increased number (percentage) of households with improved access to local services in the targeted areas;
- Direct project beneficiaries (number), of which female (percentage);
- Percentage of LGUs that benefit from incentive funds provided for joint implementation;
- Increased number/ percentage of JSCs functioning in accordance to adopted legal and financial framework agreement.

III. Preliminary Description

Concept Description

The proposed program would provide (i) funding for locally planned small scale infrastructure projects to improve service delivery; and (ii) support strengthening the governance and financing structure for accountable and financially sustainable local services. The investment grant would be embedded in a programmatic sector approach, establishing a systematic and transparent mechanism to allocate investment funding and provide institutional strengthening support to LGUs currently not eligible to funding provided by the Municipal Development Program (MDP). LGUs would need to meet eligibility criteria to access funding under the program. The criteria would be simple and easy to measure, but would provide an indication of (i) LGUs basic functionality; and (ii) serve as a threshold to quality for larger allocations to assure sustainability of infrastructure investments, including operation and maintenance in the future.

The proposed program would comprise of three components. The first component would provide funding and capacity building support to eligible LGUs for investments in small-scale infrastructure and services based on a transparent allocation formula. The second component would finance larger-scale investments for a group of LGUs collaborating through a JSC with an adopted legal and financing framework agreement. In addition to funding for local infrastructure and service delivery improvements, the proposed program would also provide support to strengthening the governance and financing structure for accountable and financially sustainable local services through capacity building and institutional strengthening. The third component would finance program management, implementation support, and monitoring & evaluation.

Component 1: Transfers for local planning and basic service provision. This component would support establishing a simple and transparent transfer mechanism to LGUs to ensure basic functions for (a) local planning, in particular service delivery improvement plans; (b) basic service provision, i.e., selected local and community services provided by VCs; and (c) related minimum

administrative functions. LGUs that meet basic eligibility criteria would qualify for a simple formula-based per-capita transfers and capacity building support. The underlying assumption is that small LGUs need to be strengthened in their representation and planning function to be in a position to delegate service provision to a joint entity. Would be important to add here ways this component will incorporate a strong citizen engagement. Lessons learned demonstrate that joint service provision for core municipal infrastructure and services will be crucial to leverage economies of scale, but will require a bottom-up community-driven approach to complement top-down activities. The recently closed Bank-financed Village and Neighborhood Development Project (VNDP) has established an effective Community Driven Development (CDD) approach in the West Bank and Gaza to finance crucial community and social service needs, while building the social capital required for bottom-up municipal consolidation and joint service delivery. The VNDP had promoted a gender-integrated approach to community planning and prioritization, such as minimum requirements for representation of women in project support groups. In addition, the VNDP had a requirement that 70% of the implemented community projects would benefit women and other marginalized groups, such as youth. The MDLP has built in specific requirements for gender-integration in Investment Planning and citizen engagement. Component 1 in the proposed operation will build on this experience to ensure women are participants in the bottom-up schemes. Component 1 would build on and further scale-up that approach, in particular to ensure women participate effectively in the bottom-up planning schemes. While Institutional strengthening support to the LGUs will build on the experience of MDP and VNDP, this new program will tailor capacity building packages to address the specific needs of small LGUs and JSCs and in upgrading of both their technical capacity and efficacy for citizen engagement and gender inclusion.

Component 2: Investments in local infrastructure and joint services. This component would provide financing for larger-scale investments in crucial local infrastructure and services provided by collaborative mechanisms of joint service provision, including but not limited to solid waste collection and transport, extension and/ or rehabilitation of existing water supply and sewage networks, and rehabilitation of inter-village roads. The component would provide a strong incentive for inter-village cooperation by allocating significant funding for investments that would exceed the capital expenditure and management capacity of qualifying individual LGUs, but be associated with significant service delivery improvements. LGUs would be eligible to access funding under this component upon establishing a joint service provision entity with clear legal and financing arrangements following a model template to be developed by the MoLG. VNDP has primarily financed small-scale community infrastructure and social services. This approach has proven to be effective in supporting social cohesion and building social capital in targeted communities and would remain a focus area of component 1. However, in addition to that, this larger allocation window under component 2 would address critical investment needs to fill gaps in basic service delivery that VCs cannot achieve on an individual basis. Most VCs are member of a JSC and the proposed program does not envision establishing new entities. However, the majority of existing JSCs does not perform well, lacks sustainable recurrent funding sources and suffers from weak accountability. Hence, the proposed program would put strong emphasis on strengthening existing entities by making access to funds conditional to meeting minimum criteria. LGUs would be eligible to access funding under this component upon (i) meeting the basic eligibility criteria of Component 1; and (ii) joining or establishing an entity for joint service provision with clear governance and financing arrangements meeting the program “graduation criteria”. In the case of JSCs comprised of both municipalities and VCs, the funds would exclusively benefit communities in member VCs or marginalized communities, i.e., investments would be geographically located in their jurisdictions, to prevent distorting the MDP performance incentive mechanism targeting

municipalities. In addition, investments under this component need to adhere fully to existing line ministries' sector strategies.

Component 3: Program management, implementation support, and monitoring & evaluation. This component would finance costs associated with implementation of the program. It would also finance capacity building activities to support institutional strengthening of the implementing agency.

Eligibility criteria. Two sets of eligibility criteria would be proposed. LGUs would need to meet basic criteria to access funding under Component 1 ("entry criteria"). The entry criteria would aim at assuring that basic mechanisms of LGU accountability and transparency are in place and are defined as: (i) approved planned and actual annual budgets are publicly disclosed; (ii) regular council meetings take place and minutes of meetings are publicly accessible; (iii) a Local Service Delivery Plan exists and was endorsed by the community. Further to that, LGUs would need to meet "graduation criteria" to become eligible for financing provided under Component 2. Main emphasis would be given to supporting the establishment of Joint Service Councils with a clear governance and financing structure, defined as: (i) member LGUs have adopted a joint service provision arrangement with clear performance standards and accountability; (ii) transparent financing structure and cost-recovery targets have been agreed (fees, transfers, subsidies); (iii) clear reporting and decision making arrangements are in place.

Selectivity and targeting. In addition to a per-capita allocation to LGUs meeting the entry criteria, it was proposed that the allocation formula should also include equalization elements to target lower income and marginalized communities. Criteria are yet to be developed and agreed, but may include, among others, household expenditure, LGU per capita revenues/ expenditure, or other income or service level related indicators.

Financing per component. The specific amounts allocated to each component would be defined during program preparation, once the overall funding envelope will be known, subject to available co- and parallel financing from DPs. However, it is expected that the majority of project funds for the first cycle would be allocated to Component 1 to reach a significant enough number of LGUs with sufficient funds to provide an incentive to participate in the program. Investments funded under Component 2 are expected to be larger in size, but are likely to target fewer locations. Specific allocations under Component 2 would be subject to (i) identification of feasible sub-projects proposed by qualifying LGUs; and (ii) funding availability. Both are to be defined during program preparation. However, indicative fund distribution is expected to be around 70-75 percent for Component 1; and around 25-30 percent for Component 2.

IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01	x		
Natural Habitats OP/BP 4.04		x	
Forests OP/BP 4.36		x	
Pest Management OP 4.09		x	
Physical Cultural Resources OP/BP 4.11		x	
Indigenous Peoples OP/BP 4.10		x	

Involuntary Resettlement OP/BP 4.12		x	
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

V. Financing (in USD Million)

Total Project Cost:	5.00	Total Bank Financing:	0.00
Financing Gap:	0.00		
Financing Source		Amount	
Borrower		0.00	
Special Financing		5.00	
Total		5.00	

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